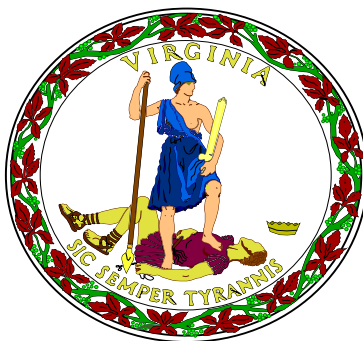


Commonwealth of Virginia

**Department of Behavioral Health and
Developmental Services**

Annual Financial Report Fiscal Year 2011



**James W. Stewart, III
Commissioner**

**Written and Published by the
Division of Finance and Administration
Office of Budget and Financial Reporting**

TRANSMITTAL LETTER

TO USERS AND READERS OF OUR FINANCIAL STATEMENTS

We are pleased to provide the Annual Financial Report for the Virginia Department of Behavioral Health and Developmental Services (the "Department") for the fiscal year ended June 30, 2011. This report contains informative financial and statistical data about the Department, which includes the Central Office, sixteen (16) state operated facilities, and funding for forty (40) community services boards. This report is also available on the Department's web page at www.DBHDS.virginia.gov.

Since 1987, the Department has produced annual financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements for the fiscal year ended June 30, 2011 are presented in accordance with the enterprise fund model as required by Governmental Accounting Standards Board (GASB) Statement Number 34, *“Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments”*. The use of GAAP requires use of estimates and accruals to match revenues in the period earned and expenses in the period incurred. This Annual Financial Report represents the Department's commitment to the accurate financial reporting of its activities.

James W. Stewart, III
Commissioner

Joy Yeh, CPA, Ph.D.
Assistant Commissioner,
Finance and Administration

December 13, 2011

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CREATING OPPORTUNITIES: A PLAN FOR ADVANCING COMMUNITY-FOCUSED SERVICES IN VIRGINIA

To fulfill its responsibility to establish a strategic agenda and related initiatives for Virginia's behavioral health and developmental services system, the Department of Behavioral Health and Developmental Services (DBHDS) has developed *Creating Opportunities: A Plan for Advancing Community-Focused Services in Virginia*. The plan identifies behavioral health and developmental services strategic initiatives and major DBHDS activities to be addressed over the next three and a half years. These initiatives and activities are intended to:

- Continue progress in advancing the DBHDS vision of a system of behavioral health and developmental services and supports that promotes self-determination, empowerment, recovery, resilience, health, and the highest possible level of participation by individuals receiving services in all aspects of community life;
- Support the Governor's expressed intentions to achieve a Commonwealth of Opportunity for all Virginians, including individuals receiving behavioral health or developmental services; and
- Assure that the services system is efficient and well-managed and that its core functions are performed in a manner that is effective and responsive to the needs of individuals receiving services and their families.

The Creating Opportunities Plan, which was presented to and endorsed by the State Board of Behavioral Health and Developmental Services on June 25, 2010, is built on previous planning efforts; enabling the DBHDS to structure an accelerated and condensed planning process that will allow implementation of the following initiatives to begin quickly. For each strategic initiative, an implementation action team will be established to develop detailed implementation plans that will include specific action steps, outcomes, and timelines. The DBHDS and System Leadership Council will monitor the implementation of each initiative.

Behavioral Health Services Strategic Initiatives

1. Strengthen the responsiveness of the emergency response system and maximize the consistency, availability, and accessibility of services for individuals in crisis across Virginia.
2. Develop infrastructure to increase peers in direct service roles and expand recovery support services.
3. Address housing needs for individuals with mental health or substance use disorders through involvement in the Governor's initiative to reduce homelessness and expand affordable housing.
4. Create employment opportunities for individuals with mental health or substance use disorders through coordination with the Governor's Economic Development and Job Creation Commission.
5. Enhance access to a consistent array of substance abuse treatment services across Virginia.
6. Review and develop strategies to enhance the effectiveness and efficiency of state hospital services.
7. Strengthen the capability of the case management system to support individuals with long term mental health or substance use disorders and children with serious emotional disturbance.
8. Develop and implement a comprehensive plan for child and adolescent mental health services.

Developmental Services Strategic Initiatives

1. Build community services and supports capacity that will enable individuals who need developmental services and supports, including those with multiple disabilities, to live a life that is fully integrated in the community.
2. Address housing needs of individuals receiving developmental services and supports through involvement in the Governor's initiative to reduce homelessness and expand affordable housing.
3. Create employment opportunities for individuals receiving developmental services and supports through coordination with the Governor's Economic Development and Job Creation Commission.
4. Provide leadership and participate in interagency planning currently underway to identify responsibility at the state level for coordinating and providing services to individuals with developmental disabilities including autism spectrum disorders.
5. Strengthen the capability of the case management and support coordination system to support individuals receiving developmental services and supports.

DBHDS Major Activities:

In addition to implementing the above behavioral health and developmental services initiatives, DBHDS will be engaged in the following major activities:

1. Participate in the work of the Secretary of Health and Human Resources' Office of Health Care Reform and develop strategies to strengthen collaboration between the preventive and primary health care and the behavioral health and developmental services systems;
2. Address sexually violent predator (SVP) service capacity issues, including obtaining necessary resources to safely operate the Virginia Center for Behavioral Rehabilitation and provide appropriate SVP rehabilitation and treatment services; and
3. Develop information technology initiatives to implement electronic health records (EHR) and health information exchange (HIE) with state facilities, CSBs, other pertinent healthcare and provider agencies, facilitate quality management, and perform quality management and outcomes oversight.

In conclusion, the Creating Opportunities Plan affirms the DBHDS vision and builds on the foundation established in previous planning efforts, including the Integrated Strategic Plan. Successful implementation of these initiatives and major activities will continue progress toward achieving a community-focused system of behavioral health and developmental services and supports that increases opportunities for and enriches the lives of individuals receiving services.

Robert F. McDonnell
Governor, Commonwealth of Virginia

William A. Hazel, Jr., M.D.
Secretary of Health and Human Resources

James W. Stewart, III
Commissioner

STATE BOARD MEMBERS (2010-2011)

Cheryl Ivey Green
(Vice Chair)
Richmond, VA

Ruth Jarvis
(Chair)
Norfolk, VA

Andrew Goddard
Richmond, VA

Daniel Karnes
Richmond, VA

Bonnie Neighbour
Richmond, VA

Gretta Doering
Winchester, VA

Joseph M. Guzman
Potomac Falls, VA

Jennifer Little
Cobbs Creek, VA

Anand Pandurangi
Richmond, VA

SENIOR MANAGEMENT TEAM (June 2011)

Olivia Garland
Deputy Commissioner

Joy Yeh, CPA, Ph.D.
Assistant Commissioner,
Finance and Administration

Les Saltzburg
Assistant Commissioner,
Quality Management & Development

John Pezzoli
Assistant Commissioner,
Behavioral Health Services

Heidi Dix
Assistant Commissioner,
Developmental Services

Jack Barber, MD
Acting Medical Director

Budgetary Highlights

BUDGETARY HIGHLIGHTS

The Department's budget consists of the following sources of funds:

Budget (in Millions)	2011	2010
State General Funds	545.1	524.1
Special Revenue Funds	315.2	312.4
Federal Funds	79.2	77.3
Final Operating Appropriation	939.5	913.8

State General Funds consist of the appropriation of general tax revenues from the Commonwealth of Virginia. These funds subsidize the Department's sixteen inpatient facilities, finance the majority of the Central Office oversight functions, and fund community programs operated by Virginia's community services boards and private not-for-profit organizations.

Special Revenue Funds are derived predominantly from the collection of fees related to the provision of services in the Department's inpatient facilities. These revenues consist of Medicaid reimbursement, Medicare reimbursement, private insurance reimbursement, private payments and Federal entitlement programs.

Federal funds consist of numerous grants from the Federal government. The majority of the Department's federal subsidies consist of the Substance Abuse Prevention Treatment (SAPT) Block Grant and the Community Mental Health Services (CMHS) Block Grant. These grants are passed through to community programs by the Department's Office of Finance and Grants Management. With the exception of the National School Lunch, National School Breakfast, Education of Handicapped Children, and the Virginia Department of Agriculture and Consumer Services Federal Food Distribution Program, all grants are passed through to community programs. A small percentage of federal funds are retained in the central office in order to cover the cost of federal grants administration. Those not passed through are administered by some of the Department's sixteen inpatient facilities.

Of the Department's operating budget of \$939.5 million, \$917 million was expended. On a budgetary basis of accounting whereby expenses are recognized when paid as opposed to incurred, the Department expended its appropriated resources for the following programs during fiscal years 2011 and 2010 (in millions):

Budgetary Expenditures (In Millions)	2011	2010
State Health Services	339.5	331.4
Financial Assistance for Health Services (CSB funding)	306.4	300
Administration and Support Services	213.8	203.1
Secure Confinement	23.8	21.7
Pharmacy	23.5	26.7
Other Programs	10.0	9.8
Total Budgetary Expenditures	917.0	892.7

The overall increase in budgetary expenditures was 3%.

CAPITAL ASSETS AND CAPITAL OUTLAY BUDGET

The Department's net capital assets (net of accumulated depreciation) totaled \$280.7 million. This amount represents an increase of \$37.8 million or 15.56% from the previous fiscal year. The net increase is primarily due to the increase in Construction in Progress at Western State Hospital and Central Virginia Training Center and the increase in Buildings at Eastern State Hospital. The information below details the composition of the Department's capital assets (in millions):

	<u>FY 2011</u>	<u>FY 2010</u>
Land	18.4	\$18.4
Infrastructure	12.7	12.4
Equipment	53.3	52.1
Buildings	365.0	310.4
Construction in Progress	47.9	64.0
Accumulated Depreciation	<u>(216.6)</u>	<u>(214.4)</u>
Net Capital Assets	\$280.7	\$242.9

A capital outlay budget is appropriated to the Department on a biennial basis. During a budget biennium (2 year cycle) capital appropriations may be brought forward with the approval of the Department of Planning and Budget. The capital budget is intended to provide capital maintenance, needed modifications to building structures, improvements to facility boiler operations, life safety code modifications, and funds for specific construction projects. For fiscal year 2011 the Department's capital outlay budget was \$226.1 million of which \$59.9 million was expended. The capital outlay budget decreased 17% from the prior year and expenditures increased by 23.8%.

ECONOMIC FACTORS AFFECTING THE DEPARTMENT

In fiscal year 2011, Virginia's economy leveled out but was still weak as it mirrored the national economy. The State's unemployment rate held steady at 7% as both the Commonwealth and the nation continued to struggle with unemployment levels. Although the DBHDS budget outlook has stabilized, there is caution on the part of the Governor and the General Assembly regarding the outcome of the Super Committee formed in Washington. Significant reductions in Federal defense spending in Virginia could increase unemployment rates and drive General Fund tax revenue down. This impact upon Virginia State government would be very adverse.

System Characteristics

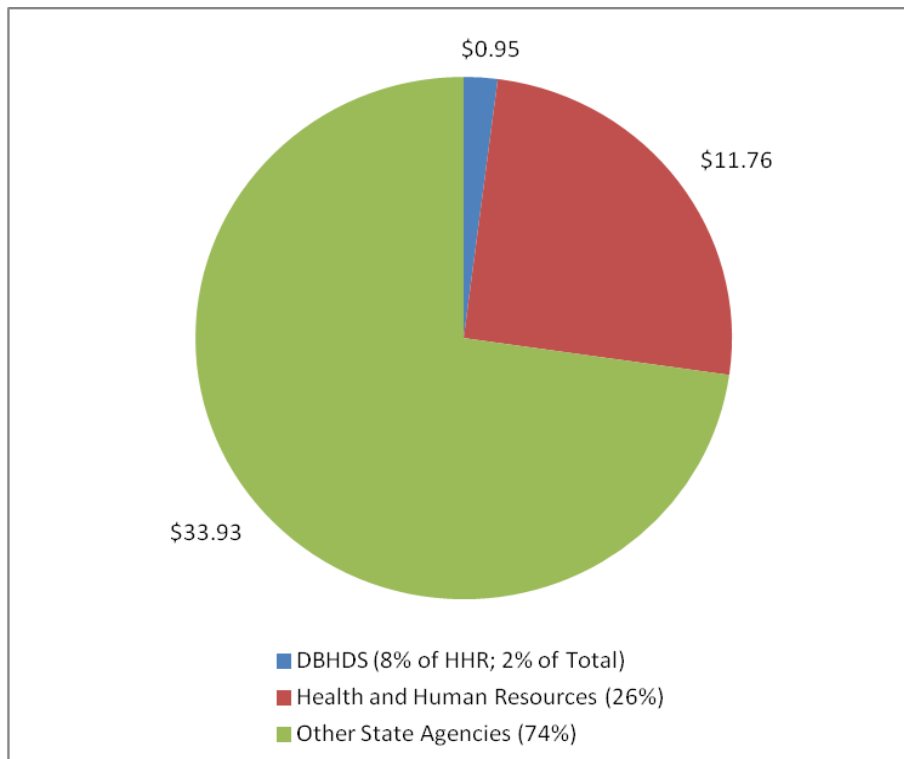
SYSTEM CHARACTERISTICS OF THE DEPARTMENT

The Virginia Department of Behavioral Health and Developmental Services (the "Department" or DBHDS) consists of ten mental health facilities, five training centers for the intellectually disabled, one medical center, and a Central Office. The Department also funds forty community services boards.

This section of the Annual Financial Report presents budgetary information and overall systems funding information for FY 2011 to provide the reader with a perspective of the size of the service delivery system in which the Department operates.

FY 2011 BUDGET

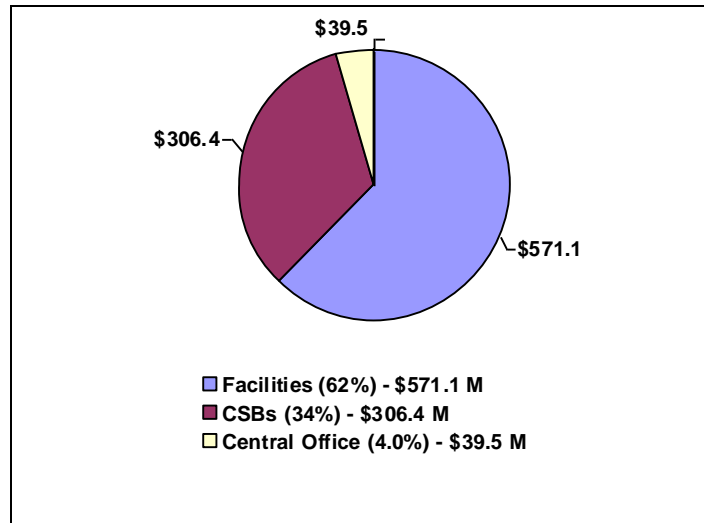
COMMONWEALTH OF VIRGINIA
\$45.69 Billion (Final Operating Appropriation)



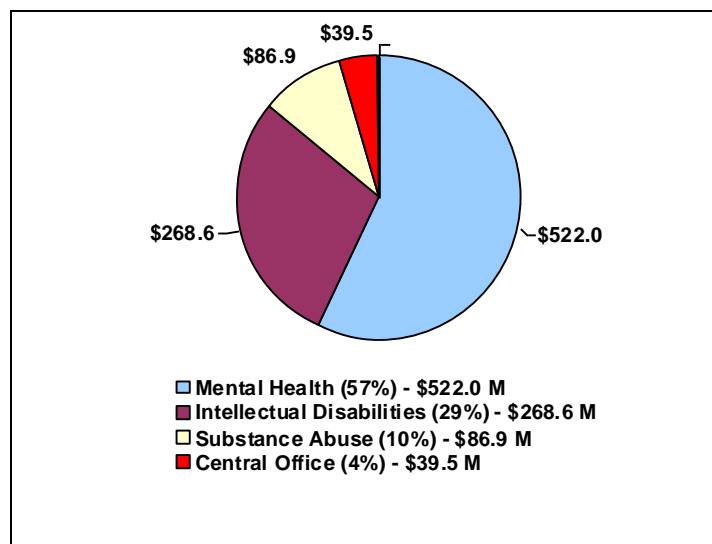
The following charts present FY 2011 final budgetary expenditures for all facilities, CSBs, and the Central Office. Also presented are expenditures by program area: Mental Health, Intellectual Disabilities, Substance Abuse, Administration and Support, and the Central Office.

FY 2011 BUDGETARY EXPENDITURES

FACILITIES, CSBs, CENTRAL OFFICE
\$917 Million Total Expenditures



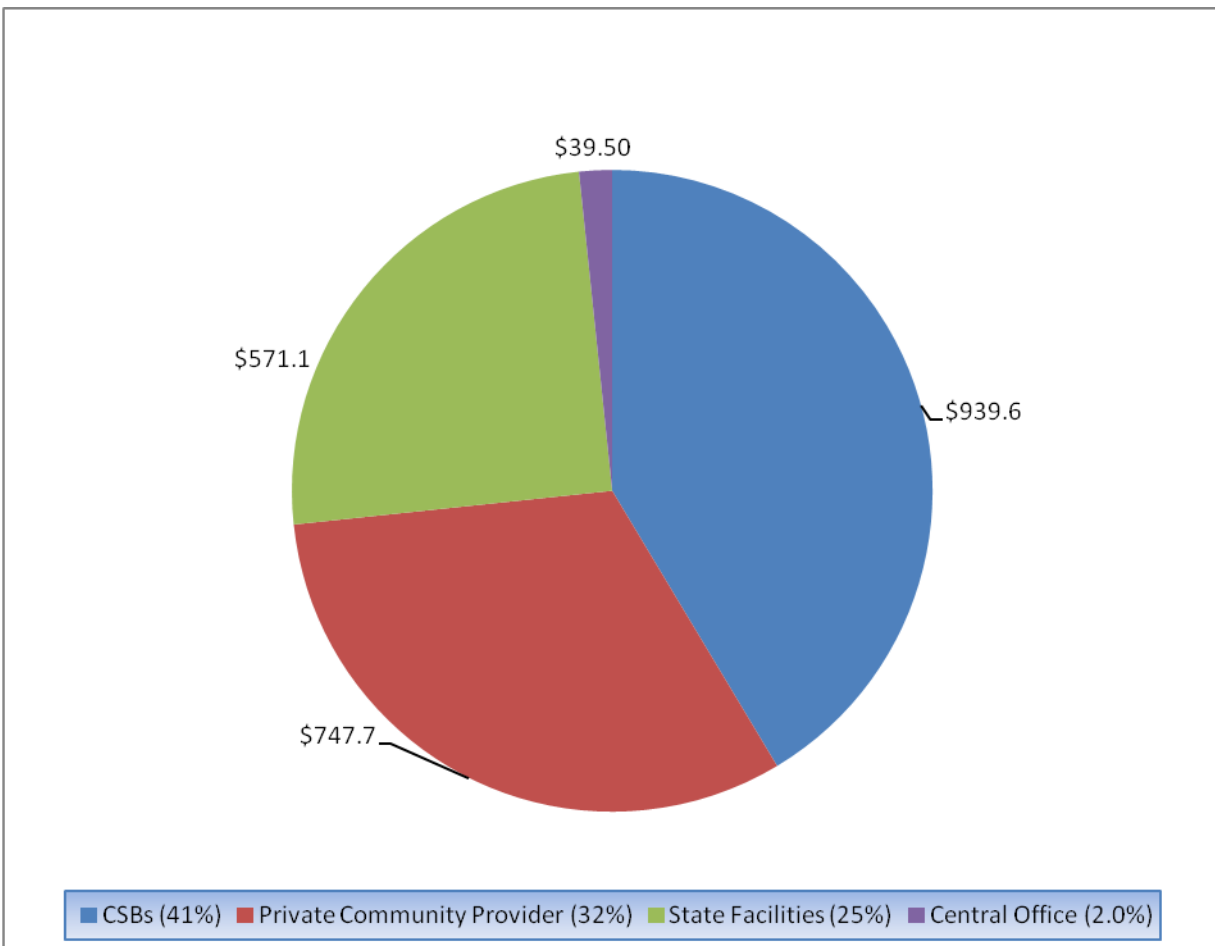
BY PROGRAM
\$917 Million Total Expenditures



The following chart is provided to present a service systems funding overview for FY 2011 and includes total funding available for publicly funded mental health, intellectual disabilities and substance abuse services within the Commonwealth. This includes private provider participation. Total Services Systems Funding is defined as amounts for the operation of DBHDS Facilities, Central Office, CSBs, and Medicaid funds for related community services. CSB funding includes amounts provided by the federal, state, and local governments, and includes Medicaid, Medicare, and other fees.

FY 2011 – TOTAL SERVICES SYSTEMS FUNDING
CSBs, Facilities, Central Office

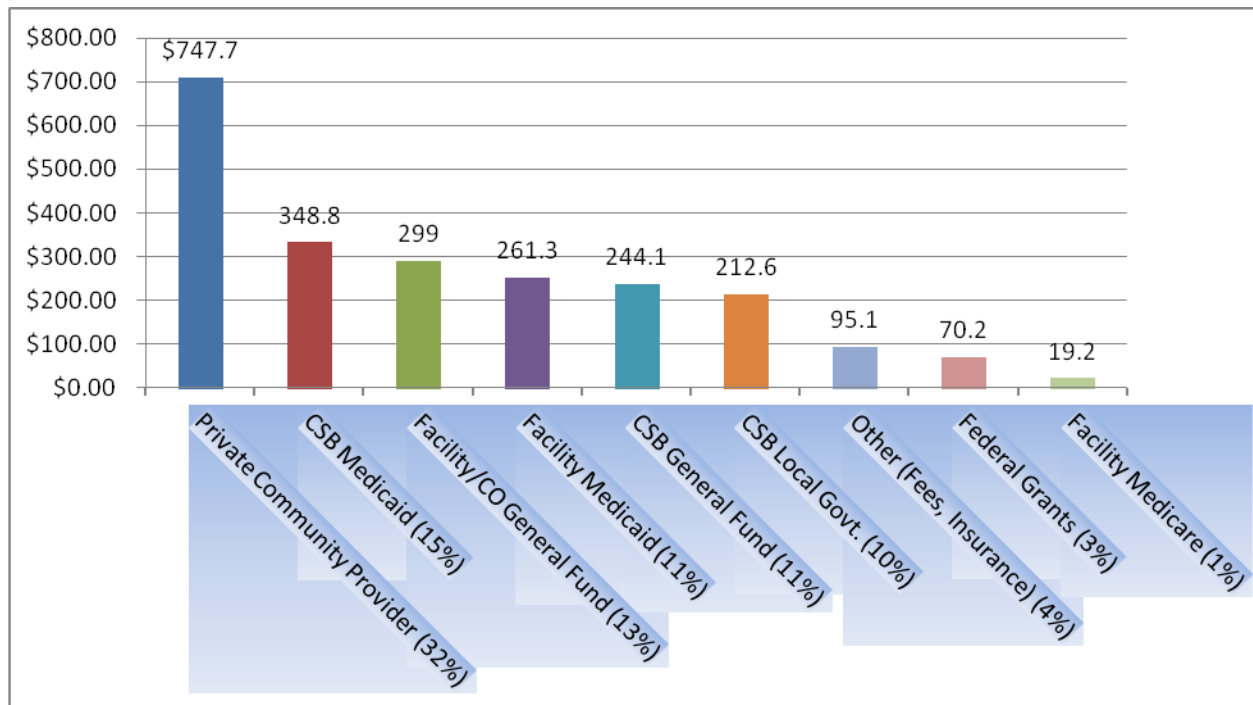
Grand Total \$2.298 Billion



The following chart presents total services systems funding for FY 2011 by funding source for Community Services Boards (CSBs), State Facilities, and the DBHDS Central Office.

TOTAL SERVICES SYSTEM FUNDING – FY 2011
GENERAL FUND, MEDICAID SOURCES, FEDERAL, LOCAL

GRAND TOTAL \$2.298 BILLION



Presented below is a comparison between 2010 and 2011.

Funding Source	2011 \$ Millions	2011 %	2010 \$ Millions	2010 %
Private Community Provider	747.7	33	\$709.0	32
CSB Medicaid	348.8	15	332.6	15
Facility/CO General Fund	299	13	289.4	13
Facility Medicaid	261.3	11	252.4	11
CSB General Fund	244.1	11	237.2	11
CSB Local Govt.	212.6	9	214.5	10
Other (Fees, Insurance)	95.1	4	94.2	4
Federal Grants	70.2	3	70.7	3
Facility Medicare	19.2	1	21.5	1
Total	2297.9	100	\$2,222.0	100

Source: DBHDS' Office of Budget and Financial Reporting

COMMUNITY SERVICES BOARDS

Community services boards or CSBs and behavioral health authority or BHA mean the public bodies organized in accordance with the relevant provisions of Chapter 5 or 6, respectively, of Title 37.2 of the *Code of Virginia* as well as the agencies (staff) that provides direct and contracted mental health, intellectual disability, and substance abuse services to individuals with mental health or substance use disorders or intellectual disability in their localities. Listed below are the forty community services boards serving Virginia residents.

Virginia Community Services Boards

Alexandria	Highlands
Alleghany Highlands	Loudoun County
Arlington County	Middle Peninsula-Northern Neck
Blue Ridge Behavioral Healthcare	Mount Rogers
Central Virginia	New River Valley
Chesapeake	Norfolk
Chesterfield	Northwestern
Colonial	Piedmont
Crossroads	Planning District One Behavioral Health Services
Cumberland Mountain	Portsmouth Dept. of Behavioral Healthcare Services
Danville-Pittsylvania	Prince William County
Dickenson County Behavioral Health Services	Rappahannock Area
District 19	Rappahannock-Rapidan
Eastern Shore	Region Ten
Fairfax-Falls Church	Richmond Behavioral Health Authority
Goochland-Powhatan	Rockbridge Area
Hampton-Newport News	Southside
Hanover County	Valley
Harrisonburg-Rockingham	Virginia Beach Dept. of MH/MR/SAS
Henrico Area	Western Tidewater

There are three types of CSBs, depending on their relationships with the local governments that established them. There are 28 operating CSBs and one BHA, which employ their own staff, are not city or county departments, and function independently of their local governments. There are 10 administrative policy CSBs, which use local government staff to provide services and function as local government departments (eight of these CSBs are actual city or county departments). There is one policy-advisory CSB with a local government department. Board members are appointed by the city councils and boards of supervisors that established the CSB. Approximately 12,381 CSB staff and thousands of contract agency staff provide services to more than 196,951 individuals with mental health or substance use disorders or intellectual disability in FY 2011.

CENTRAL OFFICE

The Department's Central Office has oversight responsibility for the programmatic, financial and administrative activities occurring within the state facilities and community services boards. This office promulgates and enforces policy and provides technical assistance to facilities and community services boards. The Department also licenses and regulates public and private programs and facilities. Joy Yeh, CPA, Ph.D., is the Assistant Commissioner for Finance and Administration.

STATE FACILITIES

The Department operates ten inpatient mental health facilities. These mental health facilities consist of one adolescent facility, one geriatric facility, and eight adult facilities. The Department also operates five training centers for people with intellectual disabilities and one medical center. In FY 2003 the Virginia Center for Behavioral Rehabilitation began operation in order to treat sexually violent predators. Overall, the Department has more than 400 buildings. As of June 30, 2011, the Department consisted of 8,578 employees and the facility daily average patient census was 2,724. The daily average patient census for each facility is presented below. Employee and census information are also presented for a period spanning 40 years in the charts that follow.

Virginia's State Hospitals

<u>Facility</u>	<u>Description</u>
Catawba Hospital Director: Walton F. Mitchell, III Facility Administrator: Charles C. Law, MHA Finance Director: Cecil Hardin, CPA	Located in Catawba, Virginia, this facility provides care to patients and short-term care to adults from nearby communities. The FY 2011 daily average patient census was 100.
Central State Hospital Director: Vicki Montgomery Facility Administrator: Peter Lehman Finance Director: Bob Kaufman	Located in Petersburg, Virginia, this facility provides inpatient adult psychiatric services as well as forensic and adolescent psychiatric services. The FY 2011 daily average patient census was 232.
Eastern State Hospital Director: Jack L. Wood, MBA, VCO, MHA Facility Administrator: Chris Bowman Finance Director: Timothy Crittenden	Located in Williamsburg, Virginia, this hospital provides adult, geriatric, acute and chronic psychiatric, behavioral and dual diagnosis to individuals with mental illness and chemical dependency. The FY 2011 daily average patient census was 289.
Commonwealth Center for Children and Adolescents Director: William J. Tuell, RN, MSN Facility Administrator: Vickie Hite Finance Director: Vickie Hite	Located in Staunton, Virginia, this new facility provides highly specialized intensive diagnostic, evaluation and psychiatric treatment services to children between the ages of four and eighteen. The FY 2011 daily average patient census was 35.
Northern Virginia Mental Health Institute Director: R. Maximilien Del Rio, MD, JD, MPH, FCLM Facility Administrator: Richard Lopez, MBA Finance Director: John Poffenbarger	Located in Falls Church, Virginia, this facility provides acute psychiatric care. The FY 2011 daily average patient census was 116.
Piedmont Geriatric Hospital Director: Stephen M. Herrick, Ph.D. Fac. Administrator: Lynne Inge Finance Director: Lynne Inge	Located in Burkeville, Virginia, this hospital provides care for geriatric patients. The FY 2011 daily average patient census was 110.
Southern Virginia Mental Health Institute Director: David M. Lyon, MBA Facility Administrator: Robin Crews Finance Director: Wayne Peters	Located in Danville, Virginia, this facility provides short-term acute psychiatric care. The FY 2011 daily average patient census was 71.
Southwestern Virginia Mental Health Institute Director: Cynthia McClaskey, Ph.D. Facility Administrator: Amanda Currin Finance Director: Lonzo Lester, Jr.	Located in Marion, Virginia, this facility provides acute and long-term care for adolescents, adults, and geriatrics. The FY 2011 daily average patient census was 140.
Western State Hospital Director: Jack Barber, MD Facility Administrator: David Mawyer Finance Director: Jon Chapman	Located in Staunton, Virginia, this hospital provides inpatient adult psychiatric services. The FY 2011 daily average patient census was 227.

Virginia Center for Behavioral Rehabilitation

Director: Kimberly Runion
Assistant Director: Lynne Inge
Finance Director: Lynne Inge

Located in Burkeville, Virginia, this facility was established July 1, 2003 and moved to its current location in February 2008. The purpose of VCBR is to provide treatment to individuals deemed to be sexually violent. Patients at this facility have completed their prison terms associated with sexually violent behavior and are receiving inpatient treatment for their disorders. The FY 2011 daily average patient census was 239.

Virginia's Training Centers

The Department's training centers provide residential care and training in such areas as language, self-care, independent living, socialization, academic skills and motor development. Each training center is described below.

Facility

Central Virginia Training Center

Director: Dale Woods, Ed. D.
Facility Administrator: Charles Felmlee
Finance Director: Charles Felmlee

Northern Virginia Training Center

Director: Mark Diorio, Ph.D.
Facility Administrator: Philippe Peter
Finance Director: Catherine Kost, CPA

Southeastern Virginia Training Center

Director: Robert D. Shrewsberry, Ph.D.
Facility Administrator: Brian Whitesell
Finance Director: Frank Sivieri

Southwestern Virginia Training Center

Director: Dennis Shrewsberry (Acting)
Facility Administrator: Kevin Meyer
Finance Director: Karen Hash

Southside Virginia Training Center

Director: William Hawkins
Facility Administrator: Bob Kaufman
Finance Director: Bob Kaufman

Description

Located in Lynchburg, Virginia, this center provides inpatient services to residents who are severely and profoundly retarded. The FY 2011 daily average patient census was 394.

Located in Fairfax, Virginia, this center serves residents with moderate to profound Intellectual disabilities. The FY 2011 daily average patient census was 157.

Located in Chesapeake, Virginia, this center serves individuals with severe to profound Intellectual disabilities. The FY 2011 daily average patient census was 126.

Located in Hillsville, Virginia, this center serves persons with severe to profound Intellectual disabilities and multiple disabilities. The FY 2011 daily average patient census was 182.

Located in Petersburg, Virginia, this center serves individuals with severe to profound Intellectual disabilities and varying physical disabilities. The FY 2011 daily average patient census was 246. This facility provides administrative and operational support to Central State Hospital and Hiram Davis Medical Center.

Medical Center

Hiram Davis Medical Center

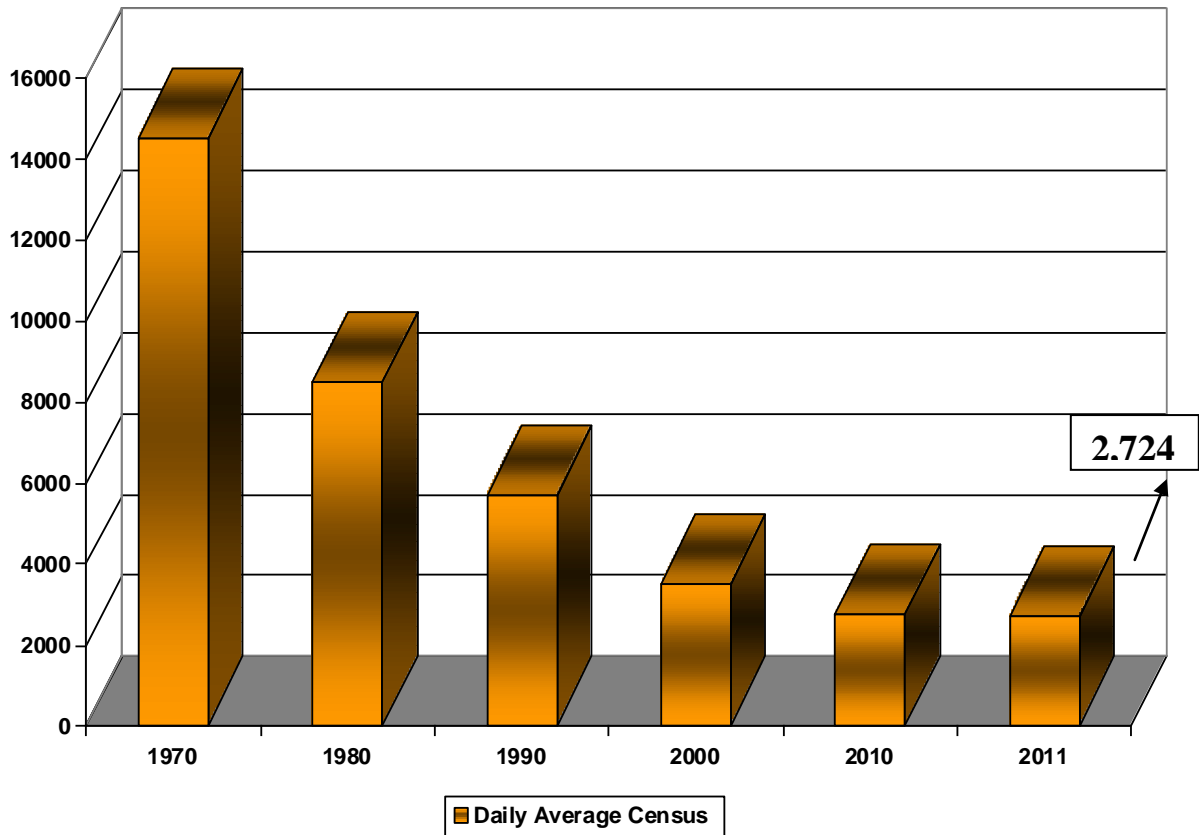
Operations Director: William Hawkins
Facility Administrator: Brenda Buenvenida
Finance Director: Bob Kaufman

Located in Petersburg, Virginia, the Department operates this center, which serves the medical needs of patients and residents of Central State Hospital, and Southside Virginia Training Center, respectively. The medical center also operates an aftercare pharmacy, which provides medications to the patients and residents of the Petersburg Complex and clients of the forty community services boards. The FY 2011 daily average patient census was 59.

STATE FACILITIES STATISTICS

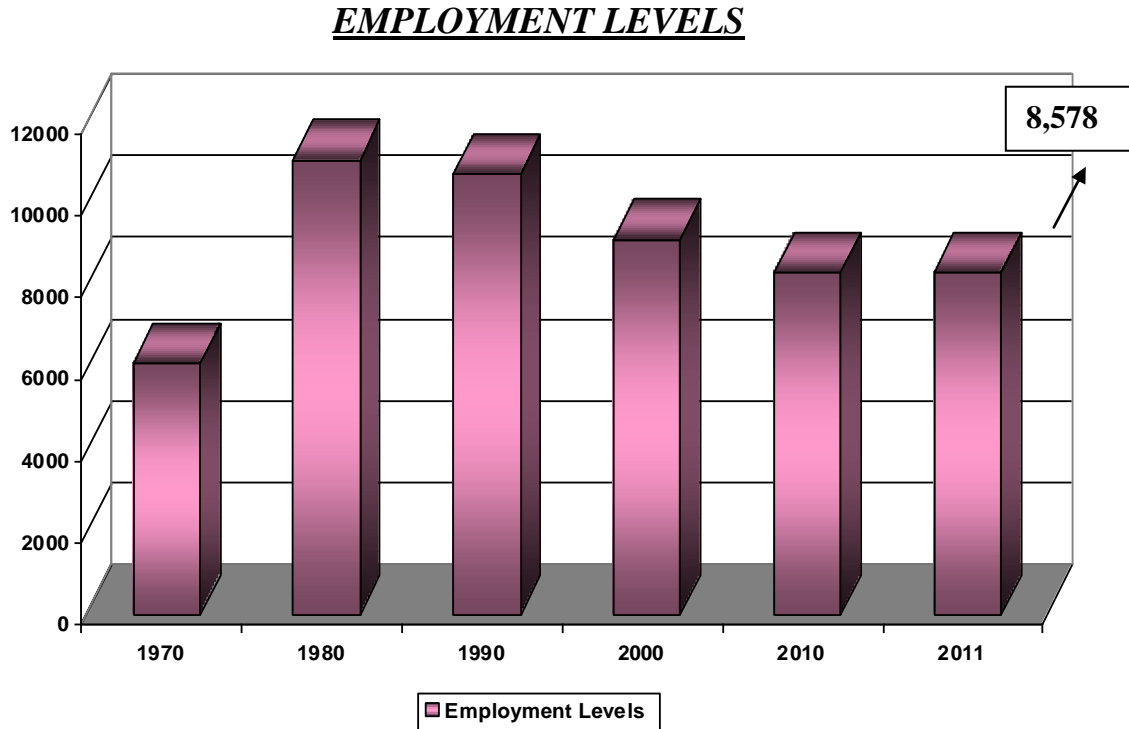
The following chart presents selected patient census levels over the past 40 years. As can be noted, the Daily Average Census levels have been steadily declining since 1970 with a gradual leveling since 2000. In 1970, the Daily Average Census was 14,514 and in 2011 the Daily Average Census was 2,724.

PATIENT CENSUS



Source: “Comparative Analysis-Operating Statistics and Costs” and “Ten Year Expenditure Analyses.”
DBHDS Office of Budget and Financial Reporting

The following chart presents selected employment levels over the past 40 years. Employment levels have been declining since 1980. The 1980 level was 11,106 and the 2011 level was 8,578. These employment levels include all DBHDS operations (facilities, central office, and Inspector General).



Source: DBHDS Office of Budget and Financial Reporting “Comparative Analysis-Operating Statistics and Cost” and “Ten Year Expenditure Analyses.”

Note: Employment levels presented above are employees on payroll at the end of the fiscal year. Employment levels were low in the 1970's due to the operation of fewer facilities by DBHDS. In 1970, DBHDS operated 9 facilities. In 1980 there were 17 facilities and from 1990-2003 there were 15 facilities. Since 2004, DBHDS has operated 16 facilities.

Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

For the Fiscal Year Ending June 30, 2011

This section of the annual financial report of the Department of Behavioral Health and Developmental Services (the Department) represents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2011. Please read and review this information in conjunction with the Department's transmittal letter at the front of this report and the Department's financial statements and note disclosures.

OVERVIEW OF FINANCIAL STATEMENTS:

The basic financial statements of the Virginia Department of Behavioral Health and Developmental Services (the Department) are presented in a proprietary fund format in accordance with the principles of an enterprise fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require the Department to maximize efforts to recover the costs of services rendered at our sixteen inpatient facilities. Due to this, a fee is applicable to every service provided. The Department is required by law to maximize its efforts to collect such fees from individual patients, legally liable parties, and third party coverage such as Medicaid, Medicare and private insurance.

In addition to the operation of inpatient facilities, the Department funds community programs operated by the Commonwealth's forty community services boards. Funding is also provided to a number of private not-for-profit organizations providing mental health, intellectual disabilities and substance abuse services in a community setting. This funding consists of state general funds from the Commonwealth of Virginia and Federal grant subsidies. These financial activities, along with those attributable to capital maintenance and restricted donations, are presented in the financial statements as non-operating financial activities. The financial statements and information presented include the following:

Statement of Net Assets: This financial statement displays the Department's assets and liabilities and the difference between them (net assets). Changes in net assets (increases and decreases) represent one mechanism to measure the financial health of the Department and whether its financial position is improving or deteriorating.

The Department's net assets increased by approximately \$39.1 million (24%) from \$263 million to \$302.1 million. This increase in net assets was primarily attributable to significant construction that took place at a number of facilities. Cost reduction also played a part in increasing our net assets in fiscal year 2011.

Statement of Revenues, Expenses and Changes in Net Assets: This financial statement presents the operating results of the Department for the fiscal year ended June 30, 2011. The Department uses the accrual basis of accounting whereby revenues are recognized when earned as opposed to received and expenses are recognized when incurred as opposed to when paid.

Total revenues increased (2%) to \$910.7 million. Net Patient Service Revenue decreased \$25.5 million and Appropriations from the Commonwealth increased \$21 million. Federal revenues decreased \$3 million. The decrease in Net Patient Service Revenue is attributed to several factors including changes in gross charges, charity allowances, contractual adjustments, facility census reduction and the decertification, for six months, of the Hancock Geriatric facility at Eastern State Hospital.

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Net Assets
For the Fiscal Year Ended June 30, 2011
With Comparative Figures for 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets:		
Cash, Cash Equivalents and Investments	\$ 2,288,430	\$ 2,541,082
Cash with Treasurer of Virginia	30,140,361	38,511,363
Cash Advances	-	-
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$27,326,073 for 2011 and \$13,423,011 for 2010)	30,903,601	24,571,378
Cost Settlements Receivable	15,799,442	22,576,005
Inventories	6,730,450	3,832,925
Prepaid Assets	32,480,579	21,293,698
Total Current Assets	<u>118,342,863</u>	<u>113,326,451</u>
Noncurrent Assets		
Capital Outlay Funds	(5,090,946)	(5,168,025)
Patient/Resident Funds Held by Trustee	3,706,117	3,574,052
Energy Performance Contracts Held by Trustee	-	-
Property, Plant and Equipment (Net of Accumulated Depreciation)	280,733,200	242,909,514
Total Noncurrent Assets	<u>279,348,371</u>	<u>241,315,541</u>
Total Assets	<u><u>397,691,234</u></u>	<u><u>354,641,992</u></u>
Liabilities		
Current Liabilities:		
Accrued Payroll	26,218,479	25,731,754
Accounts Payable	9,806,551	3,983,157
Compensated Absences	141,437	432,292
Retainage Payable	2,670,483	3,145,453
Deferred Revenue	1,356,935	856,303
Other Liabilities	179,382	179,673
Total Current Liabilities	<u>40,373,267</u>	<u>34,328,632</u>
Noncurrent Liabilities		
Compensated Absences	32,769,160	33,061,066
Patient Resident Funds Held by Trustee	3,706,117	3,574,052
Installment Purchase Obligations	18,735,147	20,631,233
Total Noncurrent Liabilities	<u>55,210,424</u>	<u>57,266,351</u>
Total Liabilities	<u><u>95,583,691</u></u>	<u><u>91,594,983</u></u>
Net Assets		
Invested in Capital Assets	280,733,200	242,909,514
Retained Earnings	302,812	274,611
Unrestricted	53,396,031	48,049,657
Restricted	(32,324,500)	(28,186,773)
Total Net Assets	<u><u>\$ 302,107,543</u></u>	<u><u>\$ 263,047,009</u></u>
Total Liabilities and Net Assets	<u><u>\$ 397,691,234</u></u>	<u><u>\$ 354,641,992</u></u>

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
With Comparative Figures for 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net Patient Service Revenue	\$ 292,075,813	\$ 317,645,182
Other Operating Revenue	1,231,282	966,123
Total Operating Revenue	<u>293,307,095</u>	<u>318,611,305</u>
Expenses		
State Health Services	344,317,336	325,388,947
Administration and Support Services	188,705,153	192,638,768
Secure Confinement	23,250,860	23,289,848
Pharmacy Services	21,399,557	28,296,956
Depreciation Expense	9,934,452	9,793,960
Instruction	7,844,095	7,083,291
Regulation of Public Facilities	1,566,031	2,093,628
Loss on Disposal of Equipment	285,424	149,018
Total Operating Expenses	<u>597,302,908</u>	<u>588,734,416</u>
Operating Income(Loss)	<u>(303,995,813)</u>	<u>(270,123,111)</u>
Nonoperating Income (Loss)		
Appropriations from the Commonwealth	545,161,721	524,100,079
Federal Grant Revenues	68,898,509	72,047,547
Restricted Donations	255,585	697,601
Surplus Property Sales	57,040	25,645
Insurance Recovery Proceeds	3,000,000	706,341
Interest Income	484	990
Financial Assistance for Health Services	(306,357,077)	(299,991,883)
Capital Outlay Expenses	(17,435,922)	(3,597,974)
Other Nonoperating Expenses	(8,021,320)	(9,471,203)
Total Nonoperating Income(Loss)	<u>285,559,020</u>	<u>284,517,143</u>
Income(Loss) Before Contributions and Transfers	<u>(18,436,793)</u>	<u>14,394,032</u>
Transfers from Department of Medical Assistance Services	-	-
Capital Appropriations from the Commonwealth	-	-
Capital Revenue Bond Proceeds	58,961,321	44,284,518
Reversions to the Commonwealth	(2,165,613)	(4,671,072)
Net Operating Transfers	<u>701,619</u>	<u>(2,812,921)</u>
Change in Net Assets	39,060,534	51,194,557
Net Assets, Beginning of Year	263,047,009	211,852,452
Net Assets, End of Year	<u>\$ 302,107,543</u>	<u>\$ 263,047,009</u>

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011**

Cash Flows from Operating Activities:

Receipts from Patient Services	\$ 292,520,153
Other Operating Receipts	1,029,943
Payments to Employees	(445,954,944)
Payments to Suppliers	(151,023,447)
Net Cash Provided by Operations	(303,428,295)

Cash Flows from Noncapital Financing Activities:

Operating Subsidies-General Fund Appropriations	545,161,721
Federal Grant Subsidies	69,399,141
Payments to Community Programs	(306,357,077)
Net Operating Transfers and Reversions	(1,459,610)
Restricted Donations	255,585
Restricted Expenditures	(14,471,405)
Restricted Expenditures (Local Funds)	(80,133)
Endowment Expenditures	(5,895)
Nonoperating Revenues	3,258,861
Transfers to Patient and Canteen Activities	131,634
Interest Income from Endowment Funds	484
Net Cash Flows from Noncapital Financing Activities	295,833,306

Cash Flows from Capital and Related Financing:

Revenue Bond Proceeds	58,961,321
Capital Outlay Expenditures	(59,780,842)
Capital Outlay Appropriations	-
Net Cash Transfers and Reversions	-
Net Cash Flows from Capital and Related Financing	(819,521)

Net Increase(Decrease) in Cash and Cash Equivalents	(8,414,510)
Balance at Beginning of Year	39,458,472
Balance at End of Year	\$ 31,043,962

**Reconciliation of Operating Loss to Net Cash
Used by Operations**

Operating Loss	\$ (303,995,813)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operations:	
Depreciation Expense	9,934,452
Loss on Disposal of Property	285,424

Net Changes in Assets and Liabilities:

Accounts Receivable	(6,332,223)
Third Party Settlements Receivable	6,776,563
Inventories	(2,897,525)
Prepaid Assets	(11,186,881)
Accrued Payroll	485,725
Accounts Payable	5,823,394
Compensated Absences- Current	(290,855)
Retainage Payable	(474,970)
Deferred Revenue	500,632
Installment Purchase Obligations	(1,896,086)
Other Current Liabilities	(291)
Compensated Absences-Long Term	(291,906)
Funds Held in Custody for Others	132,065
Third Party Settlements Payable	-
Other Liabilities	-
Net Cash Used by Operating Activities	\$ (303,428,295)

Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements represent the activities of the Virginia Department of Behavioral Health and Developmental Services (DBHDS) for the fiscal year ended June 30, 2010. DBHDS is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The financial statements presented include the sixteen state operated facilities and funding for forty community services boards. The state facilities are listed below as follows:

<u>Facility</u>	<u>Location</u>	<u>Facility</u>	<u>Location</u>
Central State Hospital	Petersburg	Northern VA Training Center	Fairfax
Eastern State Hospital	Williamsburg	Southside VA Training Center	Petersburg
Southwestern VA MH Institute	Marion	Northern VA MH Institute	Falls Church
Western State Hospital	Staunton	Piedmont Geriatric Hospital	Burkeville
Central VA Training Center	Lynchburg	Southwestern VA Training Center	Hillsville
Commonwealth Center for Children and Adolescents	Staunton	Southern VA MH Institute	Danville
Southeastern VA Tng. Center	Chesapeake	Hiram Davis Medical Center	Petersburg
Catawba Hospital	Catawba	VA Center for Behavioral Rehabilitation	Burkeville

B. Basis of Accounting

DBHDS has adopted the economic resources measurement focus and full accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Government Accounting Standards Board (GASB) for providers of healthcare services. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place.

Pursuant to GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting, DBHDS has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The financial statements have been prepared in accordance with GASB Statement 34, Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

D. Net Patient Service Revenue

Patient service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net patient service revenue, as are charges for charity services.

E. Indigent Care and Uncollectible Accounts

DBHDS accepts all patients regardless of their ability to pay. A patient is classified as indigent by reference to established Commonwealth policies. The criteria for identifying indigent patients are based on asset and income guidelines that are updated annually in accordance with the federal poverty income guidelines as provided by the Federal Office of Management and Budget. Net Patient Service Revenue includes the gross charges for indigent care less allowances for uncollectible amounts.

F. Settlements Due To/From Third-Party Programs and Contractual Adjustments

A significant portion of the Department's services are rendered to patients covered by Medicare, Medicaid, or Anthem. These third-party payers have entered into contractual arrangements with the Department for reimbursement of services provided to patients in specific certified components of the Department's individual facilities. Generally, the Department is reimbursed for patient services by these third-party payers at the lower of cost or charges or at prospectively determined rates in the case of certified components that provide inpatient services. Throughout the year, the third-party payers reimburse the Department at a prearranged tentative payment amount. In accordance with the third-party payer agreements, the difference between covered charges, whether based upon allowable costs of services or prospectively determined rates, and the Department's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements for reimbursement of patient services covered by third-party programs are determined through cost reports, which are subject to audit and retroactive adjustments by these third parties.

G. Investments

Investments are valued at cost or fair market value when received if donated.

H. Inventory

Inventory is generally valued at average cost. DBHDS inventory consists of the following: drugs, medical supplies, materials, food supplies, petroleum/fuel oil, housekeeping and laundry supplies, personal care items and clothing, and office supplies. Adjustments have been made in order to report inventory amounts in accordance with the consumption method.

I. Compensated Absences

Compensated absences reflected in the accompanying financial statements represent the amounts of vacation, sick and compensatory leave earned by employees of the Department, but not taken at June 30, 2011. The amount reflects all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave policies.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures required for Categories 1 and 2 deposits and investments, but maintains disclosures for category 3. The following risk disclosures are required by GASB Statement 40:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. DBHDS has no Category 3 deposits or investments for 2011. At the end of the year, the carrying amount of Cash Not with the Treasurer of Virginia was \$3,386,506 and the bank balance was \$3,581,649. The bank balances exceeding those covered by Federal Deposit Insurance are protected under the provisions of the Virginia Security for Public Deposits Act.

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of DBHDS' investments. The Mutual and Money Market Funds and Local Government Investment Pool represent 4 and 96 percent, respectively, of total investments.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. DBHDS does not have an interest rate risk policy.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. DBHDS has no foreign investments or deposits for 2011.

The following information is provided with respect to the risks associated with the DBHDS' cash, cash equivalents, and investments at June 30, 2011.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of DBHDS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by DBHDS are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2- 4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for DBHDS' deposits. Cash and cash equivalents represent cash with the Treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Additional disclosures required for cash equivalents under GASB Statement 40 are presented with the investments in the following tables.

Investments

Authorized investments are set forth in the Investment of Public Funds Act of the Code of Virginia, Sections 2.2-4500 through 2.2-4516. Authorized investments include: U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds. Investments fall into two groups: short- and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Credit and Concentration of Credit Risks

	Fair Value	Credit Rating	Concentration of Risk Percent
Cash Equivalents:			
U.S. government securities:			
Short-term investment fund	\$15,500	AAA	
Other	201,143		
Total Cash Equivalents	216,643		
Investments:			
Local government investment pool	2,640,335	AAA	100%
Total investments	2,640,335		
Total Cash Equivalents and Investments	2,856,978		

Interest Rate Risk –Maturities

	Less than 1 year	1-5 years	Total
Investments:			
Local government investment pool	0	2,856,978	2,856,978
Total Investments	<u>\$0</u>	<u>\$2,856,978</u>	<u>\$2,856,978</u>

Securities Lending Transactions

Investments and cash equivalents held by the Treasury of Virginia represent DBHDS' allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. NONCURRENT ASSETS

Noncurrent Assets are for two primary purposes. The first purpose is for capital maintenance and construction. These funds are held with the Treasurer of Virginia. The second purpose is for discretionary use by DBHDS patient/residents. These funds are held in trust in local bank accounts throughout the State.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or estimated historical cost. The Department capitalizes expenditures for equipment if the equipment is separate, has a multi-year life and has a value or unit acquisition cost in excess of \$5,000 at the date of acquisition (for State Hospitals and Training Centers).

Depreciation on property, plant and equipment is computed over the estimated useful lives of the assets based upon the straight-line method of depreciation. The general range of estimated useful lives is fifteen to forty years for buildings and fixtures and three to fifteen years for equipment. A summary of changes in fixed assets is presented below:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
Land	\$18,442,595	\$0	\$0	\$18,442,595
Infrastructure	12,421,513	346,630	80,403	12,687,740
Equipment	52,147,980	3,009,494	1,816,382	53,341,092
Buildings	310,373,674	60,777,435	6,122,037	365,029,072
Construction in Progress	63,987,353	45,574,836	61,664,833	47,897,356
Accumulated Depr.	<u>(214,463,601)</u>	<u>(9,934,452)</u>	<u>(7,733,398)</u>	<u>(216,664,655)</u>
Total	<u>\$242,909,514</u>	<u>\$99,773,943</u>	<u>\$61,950,257</u>	<u>\$280,733,200</u>

5. RETAINAGE PAYABLE

At June 30, 2011, \$2,670,483 was held by DBHDS as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the various contracts.

6. OPERATING LEASES

The Department is also committed under various operating leases for equipment. In general, these leases are short term in nature. As of June 30, 2011, the Department has the following total future minimum rental payments for operating leases. The Department had no capital leases outstanding as of June 30, 2011.

<u>Year</u>	<u>Operating Leases</u>
2012	404,854
2013	208,175
2014	52,623
2015	666
2016	<u>333</u>
Total Minimum Lease Payments	666,651
Less: Executor Costs	<u>140,533</u>
Net Minimum Rental Payments	<u>526,118</u>
Current Portion	404,854
Long-term Portion	<u>261,797</u>
Total	<u>666,651</u>

7.

CONTINGENCIES

Medicare cost reports submitted to the Medicare program together with the related statistics that support cost allocations to the program for the fiscal year ended June 30, 2011 have not been reviewed by the fiscal intermediary. Acceptance and review of these cost reports could result in adjustments to settlements and a liability of the Department to the Medicare program. The effects of these reviews cannot be determined at this time. Medicaid cost reports submitted for final settlement for the fiscal year ended June 30, 2011 have not been reviewed by the intermediary. Acceptance and review of these cost reports could result in adjustments to the settlements and a liability of the Department to the Medicaid program. It is the opinion that adjustments, if any, resulting from this review will not be material.

The Department is involved in several lawsuits arising in the ordinary course of operations. It is the Department's opinion that any losses incurred as a result of known claims existing as of June 30, 2011 will not be material.

8. APPROPRIATIONS FROM THE COMMONWEALTH

The Appropriations Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Department's facilities or Central Office for expenditure.

The original appropriation from the General Fund of the Commonwealth for fiscal year 2011 has been adjusted as follows:

FY 2011, Original Appropriation, as of July 1, 2010	\$533,987,476
Transfer to Dept. of Medical Assistance Services for Medicaid Match	(7,000,000)
Transfer to Dept. of Rehabilitative Services for Vocational Rehab Counselors	(949,430)
Transfer to Dept. of Rehabilitative Services for OBRA Services	(611,521)
Transfer to VA Dept. of Health for Part C – Early Intervention	(390,022)
Transfer to Dept. of Criminal Justice Services for Crisis Intervention	(200,000)
Transfers to VITA for Operational Efficiencies Savings	(123,434)
Transfer of FY12 appropriations to FY11 for operation of VCBR	8,314,174
FY 2011 Central Appropriation Distributions	5,833,731
Adjustments for Information Technology Service Rate Increases	2,547,422
Discretionary Re-appropriation	2,024,362
Transfers from Dept. of Medical Assistance Services for MH Services for Children	1,575,000
Transfer from Dept. of Rehabilitative Services for OBRA	100,000
Other transfers	53,963
Final (Adjusted) Appropriation, June 30, 2011	\$545,161,721

9. NET PATIENT SERVICE REVENUE (FEES)

The Department's mental health and intellectual disabilities facilities provide a significant amount of services, which are deemed charitable and are subsidized by state General Fund appropriations. Of the total charges of \$576,391,653 for fiscal year 2011, \$284,315,840 was deemed to be charitable services. Charitable write-offs occurs when no third party resources are available and investigation of client resources indicate the client is unable to pay full rate charges or reduced charges determined in accordance with a sliding fee scale. This amount has been deducted from gross patient service revenue. The following chart presents the detail calculations of net patient service revenue (Fees) for FY 2011 and FY 2010, respectively. It is useful to note that the majority of DBHDS revenue consists of Medicaid reimbursements.

**Net Patient Service Revenue (FEES)
FY 2011 and FY 2010**

Description	FY 2011	FY 2010
Gross Patient/Resident Charges	\$576,391,653	\$584,615,353
Less: Charity Allowance	(284,315,840)	(266,970,171)
Plus: Third Party Cost Settlements Receivable	15,799,442	22,576,005
Less: Contractual Adjustments	263,546,786	(8,559,383)
Net Patient Service Revenue	292,075,813	317,645,182

10. RISK MANAGEMENT AND SELF-INSURANCE

DBHDS is a participant in the Commonwealth of Virginia's self-insurance program administered by the Department of Treasury, Division of Risk Management (DRM) and the Department of Human Resource Management (DHRM). The two types of plans offered include a health care plan for state employees administered by DHRM and a Risk Management Plan and Workers Compensation Plan offered by DRM and DHRM, respectively. Risk management insurance includes property, boiler and machinery, crime, employee dishonesty bond, general (tort) liability, professional liability, and automobile liability. These self-insurance plans are accounted for by the Commonwealth of Virginia in an Internal Service Fund. Detailed information relating to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report for FY 2011.

In the opinion of management, such coverage is adequate to provide for the ultimate liability, if any, which might result from the settlement of claims currently asserted against DBHDS, as well as the potential liability for incidents of which DBHDS has knowledge, but for which claims have not yet been asserted against DBHDS. Accordingly, no provision is included in the financial statements for such potential liabilities. Sufficient information has not been developed by DBHDS to provide a reasonable basis for estimation of the potential liability for incurred incidents, which have not been reported to DBHDS; however, in the opinion of management, any potential liability for unreported incidents is not expected to have a material effect on the financial position of DBHDS.

DBHDS is self-insured for the first \$100,000 of each risk management loss, subject to any limitations indicated in the Code of Virginia. The Commonwealth of Virginia has not had any insurance settlements exceed the coverage during the past three years.

11. RETIREMENT PLAN

Employees of DBHDS are employees of the Commonwealth. Substantially all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not DBHDS, has overall responsibility for contributions to this plan. Total pension costs under the plan were \$24,584,817 for the year ended June 30, 2011.

12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. In-

formation related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

13. DEFERRED COMPENSATION PLANS

DBHDS through the Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Commonwealth's Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets are not included in the financial statements.

14. ENDOWMENTS

Donor restricted endowments reside within DBHDS facilities. The net appreciation available for expenditure is \$250,420, and of this amount, \$250,420 is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. Facility management and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies may vary with each institution.

15. PRIVATE-PUBLIC EDUCATIONAL FACILITIES AND INFRASTRUCTURE (PPEA)

PPEA resulted from legislation that permitted an alternative tool that allows public entities to more efficiently develop infrastructure and achieve better value for the taxpayer. The PPEA provides for solicited and unsolicited proposals to develop or operate a qualifying project. Using the PPEA process, DBHDS entered into comprehensive agreements with Gilbane Development Companies on December 20, 2005 for the building of an initial 100 bed facility (phase one) to treat sexually violent predators and to replace the geriatric wing of Eastern State Hospital with a new 150 bed geriatric facility (phase one). These facilities are known as Virginia Center for Behavioral Rehabilitation (VCBR) and Hancock Geriatric Treatment Center (HGTC), respectively. VCBR, phase one, was completed in February 2008. HGTC, phase one, was completed in April 2008. Phase two of VCBR included an additional 200 beds and was completed in August 2008. Phase two of HGTC included an additional 150 beds and was completed in July 2010.

16. ENERGY PERFORMANCE CONTRACTS

The Department has entered into agreements to fund energy savings projects at various facilities. Installment purchase obligations are established for the project costs. Proceeds from these loans are held in escrow and are released to contractors as construction is completed. The Department has annual debt service payments on these loans and funding is obtained from energy savings realized as a result of the projects. As of June 30, 2011, the Department had installment purchase obligations outstanding in the amount of \$18,735,147. No cash was held by the trustee.

17. EXPENSE PROGRAM DESCRIPTIONS

The Department reports expenses under various state programs. These programs are briefly described below.

Code	Title	Use
197	Instruction	Efforts to provide academic elementary and secondary education. This includes basic skills and knowledge instruction as well as occupational-vocational instruction.
357	Secure Confinement	Efforts to hold patients in secure confinement until such time as they can be returned to the community. These include the forensic unit at Central State Hospital and the Virginia Center for Behavioral Rehabilitation.
421	Pharmacy	Efforts to provide pharmacy services in the community and through state-operated facilities.
430	State Health Services	Efforts to provide direct health care services to individuals and families through state-operated facilities.
445	Financial Assistance for Health Services	Efforts to provide financial aid to localities for the provision of local health services. This includes CSB funding for mental health, intellectual disabilities, substance abuse, and administrative services.
498	Admin & Support	Efforts to provide overall administrative and logistical support services. This includes general management, computer services, food services, housekeeping, laundry, physical and power plant, and training.
561	Regulation of Public Facilities	Efforts to inspect, certify, and regulate public facilities and services, both publicly and privately operated.

**Virginia Department of Behavioral Health
and Developmental Services
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2011**

Federal Sponsor/Program	CFDA#	Balance 7/1/2010	Receipts	Disb.	Balance 6/30/2011
<u>MONETARY ASSISTANCE</u>					
<u>U.S. DEPT. OF HEALTH & HUMAN SERVICES:</u>					
Direct Payments:					
Project Virginia Rebound-SERG	93.003	-	-	-	-
PATH Grant	93.15	-	1,375,470	1,375,470	-
SA and MH Regional Projects	93.243	-	556,710	556,710	-
CMS Research	93.779	-	-	-	-
Community MH Block Grant	93.958	-	10,048,747	10,048,747	-
SAPT Block Grant	93.959	-	43,123,835	43,114,384	9,451
<u>U.S. DEPT. OF EDUCATION:</u>					
Direct Payments:					
Grants for Infants and Families with Disabilities	84.181	-	9,867,609	9,429,391	438,218
Grants for Infants and Families with Disabilities-ARRA-Fund 1055	84.393	-	4,283,627	4,104,758	178,869
SUB-TOTAL REVENUE		-	69,255,998	68,629,460	626,538
<u>PASS THROUGH GRANTS:</u>					
VA Dept. of Health: Emergency Preparedness Grants	93.889	-	-	-	-
Substance Abuse Prevention and Treatment Block Grant	93.959	-	-	9,025	(9,025)
Grants for Infants and Families with Disabilities	84.181	-	-	180,340	(180,340)
Grants for Infants and Families with Disabilities-ARRA	84.393	-	-	188,059	(188,059)
VA Dept. of Criminal Justice Services: JABIG	16.523	-	-	-	-
VA Dept. of Criminal Justice Services: Juvenile Competency	16.549	-	-	-	-
VA Dept. of Criminal Justice Services: MH Transformation	16.745	-	32,644	32,644	-
VA Dept. of Motor Vehicles: Improving Outcomes for DUI	20.607	-	-	-	-
VA Dept of Med. Asst. Services: Workforce Demonstration	93.778	-	1,155,568	1,155,568	-
VA Dept of Med. Asst. Services: Medical Assistance Program	93.779	-	263,453	263,453	-
Universities : Longwood University	84.181	-	-	100,136	(100,136)
Universities : Longwood University	84.393	-	-	41,040	(41,040)
Universities : Radford University	84.181	-	-	157,742	(157,742)
Universities : Radford University	84.393	-	-	(50,230)	50,230
NASMHPD - National Association of State Mental Health Program Directors					
Transformation Transfer Initiative (TTI)	93.243	-	110,500	28,067	82,433
SUB-TOTAL CASH PASS THRU IN/(OUT)		-	1,562,165	2,105,844	(543,679)
Total Monetary Assistance Central Office		-	70,818,163	70,735,304	82,859
<u>FACILITY FEDERAL ASSISTANCE</u>					
National School Lunch	10.555	30,422	35,164	46,720	18,866
Adult Education State Grant Program	84.002	-	-	-	-
Education of Handicapped Children	84.027	33,825	32,113	14,327	51,611
Internet Grant	N/A	16,697	-	-	16,697
National School Breakfast	10.553	15,550	14,214	15,952	13,812
FEMA Grants	97.036	-	11,779	-	11,779
State Homeland Security Program	97.067	2,567	2,614	-	5,181
Total Facility Monetary Assistance		99,061	93,270	76,999	115,332
Total Monetary Assistance		99,061	70,911,433	70,812,303	200,805
<u>Nonmonetary Assistance</u>					
<u>U.S. DEPT OF AGRICULTURE</u>					
Pass Through Assistance: Federal Surplus Food Program	10.55	16,353	42,453	30,996	27,810
Total Federal Assistance		115,414	70,953,886	70,843,299	226,001

Chronological History

***CHRONOLOGICAL HISTORY OF THE VIRGINIA
DEPARTMENT OF BEHAVIORAL HEALTH AND
DEVELOPMENTAL SERVICES***

- 1773 Public Hospital for Persons of Insane and Disordered Minds (currently known as Eastern State Hospital) is established in Williamsburg. This facility is the first in the new world designed exclusively for treatment of people with mental disabilities.
- 1825 Western State Hospital is established in Staunton.
- 1841 Public Hospital for Persons of Insane and Disordered Minds changes its name to Eastern Lunatic Asylum.
- 1869 Central State Hospital is established in Howards Grove.
- 1885 Central State Hospital is moved to Petersburg.
- 1886 Southwestern State Hospital (currently known as Southwestern Virginia Mental Health Institute) is established in Marion.
- 1894 Eastern Lunatic Asylum changes its name to Eastern State Hospital.
- 1909 Catawba Hospital is established near Salem.
- 1910 The Virginia State Colony for the Epileptic and Feebleminded (currently known as Central Virginia Training Center) is established in Lynchburg to serve people with intellectual disabilities.
- 1911 Individual boards are created to govern each state hospital and the state colony in Lynchburg.
- 1918 Piedmont Hospital (currently Piedmont Geriatric Hospital) is established near Burkeville.
- 1929 DeJarnette Center is established in Staunton.
- 1936 The first state hospital board (currently known as the State Behavioral Health and Developmental Services Board) is established.
- 1939 Petersburg Colony (currently known as Southside Virginia Training Center) is established to serve people with Intellectual disabilities.
- 1940 The Virginia State Colony for the Epileptic and Feebleminded changes its name to the Lynchburg State Colony.
- 1942 The Department of Mental Hygiene and Hospitals is established in Richmond (currently known as the Department of Behavioral Health and Developmental Services). Hugh C. Henry, MD is appointed the first Commissioner. Daily average patient census is 14,189.
- 1946 Joseph E. Barrett, MD is appointed second Commissioner. Daily average patient census is 13,656.
- 1954 The Lynchburg State Colony changes its name to the Lynchburg Training School and Hospital.
- 1957 Hiram W. Davis, MD is appointed as third Commissioner. Daily average patient census is 13,706.
- 1968 The General Assembly passes legislation (Chapter 10 of Title 37.1) allowing the establishment of community services boards. Northern Virginia Mental Health Institute is established in Falls Church.
- 1969 William Allerton, MD is appointed as fourth Commissioner. Daily average patient census is 14,501.

- 1971 The name of the Petersburg Colony is changed to the Petersburg Training School and Hospital.
- 1973 Northern Virginia Training Center and Southwestern Virginia Training Center are established in Fairfax and Hillsville, respectively. The Department of Mental Hygiene and Hospitals changes its name to the Department of Mental Health and Mental Retardation.
- 1974 The name of the Petersburg Training School and Hospital is changed to Southside Virginia Training Center.
- 1975 Southeastern Virginia Training Center is established in Chesapeake.
- 1976 By act of the General Assembly, the Division of Drug Abuse Control is merged with the Bureau of Drug Rehabilitation in the Department of Mental Health and Mental Retardation to form the Division of Substance Abuse. Leo Kirven, MD is appointed as fifth Commissioner. Daily average patient census is 10,227.
- 1977 Southern Virginia Mental Health Institute is established in Danville.
- 1979 Hiram Davis Medical Center is established in Petersburg.
- 1980 The General Assembly amends Chapter 10 to require all cities and counties to join or establish a community services board by July 1, 1983.
- 1981 Joseph Bevilacqua, Ph.D. is appointed as sixth Commissioner. Daily average patient census is 8,024.
- 1983 Statewide coverage of community services boards is achieved.
- 1985 The Lynchburg Training School and Hospital changes its name to Central Virginia Training Center.
- 1986 Howard M. Cullum is appointed as seventh Commissioner. Daily average patient census is 6,154.
- 1987 The Department of Mental Health and Mental Retardation becomes the Department of Mental Health, Mental Retardation and Substance Abuse Services.
- 1988 The General Assembly enacts a \$68 million community services initiative, the single largest infusion of state funding for community services. The Southside MHMR Support Unit is merged with Southside Virginia Training Center.
- 1990 King E. Davis, Ph.D. is appointed as eighth Commissioner. The geriatric unit at Western State Hospital and the adolescent unit at Eastern State Hospital are closed and patients transferred. Daily average patient census is 5,714.
- 1991 The Department implements Medicaid State Plan Option and intellectual disabilities waiver with community services boards. The Virginia Treatment Center for Children is transferred to the Medical College of Virginia to more adequately serve the hospital's research needs.
- 1994 Timothy A. Kelly, Ph.D. is appointed as ninth Commissioner. Daily average patient census is 4,924.
- 1997 Richard E. Kellogg is appointed acting Commissioner. Daily average patient census is 4,176.

- 1998 Richard E. Kellogg is appointed as tenth Commissioner. The Hall-Gartlan Commission completes its work and makes significant recommendations for change in the system of publicly funded mental health, intellectual disabilities, and substance abuse services. This leads to a major rewrite of portions of the Code of Virginia dealing with community mental health, intellectual disabilities, and substance abuse services. Daily average patient census is 4,048.
- 1999 Admissions to state hospitals continue to decline as medications used in community settings become more effective. Total admissions to state hospitals declined by 1,193 or 19% to 6,316. Daily average patient census is 3,799.
- 2000 Admissions to state hospitals continue to decline. Total admissions to state hospitals declined by 1,146 or 18.1% to 5,170. The daily average patient census is 3,505.
- 2001 Admissions to state hospitals increased moderately. Total admissions to state hospitals increased by 154 or 3% to 5,324. The daily average patient census is 3,191. DeJarnette Center changes its name to Commonwealth Center for Children and Adolescents.
- 2002 James S. Reinhard, MD is appointed as eleventh Commissioner. Total admissions to state hospitals increased by 734 or 13% to 6,058. The daily average patient census is 3,342. Due to severe state budget and economic conditions, the Department is required to reduce expenses by \$33.4 million in fiscal year 2003 and \$37.3 million in fiscal year 2004. These reductions apply to the Department's facilities, Central Office, and Community Program (CSB) funding.
- 2003 The patient/resident average census continued to decline. Average census was 3,263. Due to recessionary times experienced by the Commonwealth as well as the nation, the Department was forced to reduce its workforce. Total full time staff employed by the Department at June 30 was 8,967, down from 9,090 the previous year. State funding to community programs was reduced by 10%. The Department, in partnership with community services boards and state hospitals, began a series of regional reinvestment projects. These projects involve the reallocation of current state hospital resources to community programs. Legislation creating the Virginia Center for Behavioral Rehabilitation (VCBR) is enacted and Dinwiddie County is selected as the initial site. VCBR is established to treat sexually violent predators.
- 2004 The patient/resident average census continued to decline and amounted to 3,157 at the close of the year. Regional reinvestment projects, initially started in fiscal year 2003, continued as the Department moved forward in making efforts to maximize resources in community settings. Although not officially transitioned until early fiscal year 2005, fourteen information technology services staff are transferred from the Department to the newly formed Virginia Information Technology Agency (VITA).
- 2005 Patient/resident census declined to 3,069. The Department submitted its 2006-2008 biennium budget in the summer and fall of 2005. Governor Warner included \$170 million in new spending attributable to community-based services and \$290 million in capital money to replace Eastern State Hospital, Western State Hospital, Central Virginia Training Center and Southeastern Virginia Training Center. The Department employed 8,770 full-time employees including 4,520 at its mental health facilities, 3,996 at its training centers for the intellectually disabled and 254 in its Central Office.
- 2006 Patient/resident census continued to decline. The average census was 3,033. New funding initiatives in the community along with the replacement of four facilities (Eastern State, Western State, Southeastern Virginia Training Center and Central Virginia Training Center) were approved by the General Assembly. The new initiatives become effective during the 2006-2008 biennium.

2007 Patient/resident census continued to decline. The average census was 2,995. Increased funding to the community took place as a result of system transformation efforts related to the development of the 2006-2008 biennium budgets. Regional partnerships were developed to enhance service provision in the community.

On April 16, 2007, 27 students and 5 faculty members were massacred at Virginia Tech. The gunman, a Virginia Tech student, then took his own life leaving the toll of the tragedy at 33 lost lives. In reaction to this incident, Governor Kaine appointed a commission to study the issue and to make recommendations for improvements to the mental health system in Virginia. The recommendations put forth by the commission along with vigorous proposed legislation by the Virginia General Assembly set the stage for changes in Virginia's mental health system.

2008 Patient/resident census continued to decline. The average census was 2,917. The Commonwealth as well as the Nation began experiencing the effects of a serious economic downturn. Various budget reduction plans and expenditure reductions were enacted during the last six months of the fiscal year. As DBHDS moved into the 2008 legislative session, Southeastern Virginia Training Center and Commonwealth Center for Children and Adolescents were proposed to be closed effective June 30, 2008. These facilities remained open but the General Assembly directed the construction of a 75 bed SEVTC and a number of group homes in the community.

2009 On July 1, 2009, the Department officially changed its name from the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services to the Virginia Department of Behavioral Health and Developmental Services.

During the fiscal year the Department continued to reduce its budget for operation. On September 8, 2009, Governor Kaine announced further reductions to DBHDS operations. Cumulative budget reductions implemented in FY 2008, 2009 and carried forward to 2010 were as follows:

Mental Health Facilities	\$29,958,504
Intellectual Disabilities Facilities	\$9,264,086
Central Office	\$10,599,108
VCBR	\$465,987
Community Services Boards	\$34,103,179
Total Reductions	\$84,390,864

It should be noted that the above total does not include a \$15,067,179 cash transfer from our training centers in order to address the current budget shortfall. Budget reductions ranged from 3% at VCBR to 31% at Central Office. Inpatient census continued to decline and stood at 2,857 at June 30, 2009.

2010 James Stewart III was named the 12th Commissioner of DBHDS. DBHDS implemented major budget reductions during the 2010 fiscal year. The focus of the department continued to be the development of a strong community infrastructure. Inpatient census continued to decline and stood at 2,773 at June 30, 2010.

2011 The focus of the Department continued to be in the direction of the development of a strong community infrastructure. Funding was restored or increased for behavioral health programs (\$3.9 million) and for intellectual disability programs (\$42.7 million including the establishment of a \$30 million trust fund). Inpatient census continued to decline and stood at 2,724.

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The team involved in preparing this report includes Wilma P. Finney, MBA, and Kevin Howard (Budget and Financial Reporting Managers within the Office of Budget and Financial Reporting), Karen Ivey (Financial Reporting and Compliance Manager - Office of Budget and Financial Reporting), Jimmy Hodges, CGFM and Cynthia Hatch (Budget Managers - Office of Budget and Financial Reporting), Randy Sherrod, CPA (Internal Audit Director - Office of Internal Audit), Ramona Williams (Senior Internal Auditor- Office of Internal Audit) and Brenda Mantlo, Administrative Assistant to Dr. Yeh, was also involved in the production of this report.

The Auditor of Public Accounts (APA) has audited previous years' operations of the Department and those audits have been favorable. The Department has been committed to cooperating, within its resources, to comply with and implement all APA recommendations. Copies of prior years' audit reports are obtainable by writing or contacting the Auditor of Public Accounts (APA). The address is:

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